

KINGSTON WHARVES LIMITED 1998

Notes to the Financial Statements

31 December 1998

1. Identification and Principal Activities

The principal activities of the company, which is incorporated in Jamaica, and its subsidiaries comprise the operation of public wharves, port security services and the provision and installation of cold storage facilities.

The wharfage rates and penal charges billed to customers by the company are subject to regulation by the Port Authority of Jamaica. The new tariff rate structure approved by the Port Authority of Jamaica became effective in April 1998.

All amounts in these financial statements are stated in Jamaican dollars.

2. Summary of Significant Accounting Policies

(a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and investments.

(b) Consolidation

(i) The group financial statements present the results of operations and financial position of the company, its subsidiaries and associated company to the extent explained in Note 2(ii).

The subsidiaries consolidated are as follows:

Wholly owned and incorporated in Jamaica

Trading:

Harbour Cold Stores Limited

Kingston Terminal Operators Limited

Security Administrators Limited

Western Storage Limited and its subsidiary,
Jamaica Cooling Stores Limited

Western Terminals Limited

During the year Caripic Jamaica Limited, a wholly owned subsidiary was placed into a members voluntary liquidation and is treated as a disposal for consolidation purposes (Note 8).

(ii) Associated Company

The equity method of accounting is adopted for the associated company, Caribbean Freight Forwarders and Customs Brokers Limited in which the interest of Kingston Wharves Limited is 25%. Under this method the group's share of the results of the associated company is included in the group profit and loss account and the tax attributable to the share of profits is included in the group's tax charge.

(c) Depreciation

Fixed assets are depreciated on the straight line basis at rates which will amortize the carrying value of the various assets over their expected useful lives. The rates in use are:

Buildings, walls, piers, dredging and roadways	1.3% - 5%
Machinery and equipment	10% - 20%
Furniture and fixtures	5% - 10%
Motor vehicles	10% - 20%
Leasehold properties	10%

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis.

(e) Foreign currencies

Transactions during the year are converted at the rates of exchange ruling on transaction dates. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the appropriate rates of exchange ruling on balance sheet date. Gains or losses arising from fluctuations in exchange rates are reflected in the profit and loss account.

(f) Bonus shares received

The par value of shares received is credited to capital reserve. The carrying value of the investments is increased accordingly.

(g) Revenue

Wharfage and other revenue items are accounted for on an accrual basis except penal charges which are accounted for on a cash basis.

(h) Claims

Claims received are charged against the profit and loss account when they are accepted by the company, except to the extent that claims are recoverable under the company's insurance.

(i) Finance leases

The present value of minimum lease payments under finance leases is capitalised as fixed assets and a corresponding obligation to the lessor is recorded. Lease payments are treated as consisting of principal repayment and finance charges. The finance charges are recorded so as to give a constant periodic interest rate on the outstanding obligation.

(j) Pension costs

The group accrues and funds pension costs annually. Such costs are actuarially determined and include amounts to fund past and future service benefits and expenses.

3. Turnover

Turnover consists of charges made for wharfage operations, port security, installation of cold storage facilities, storage and warehousing of goods after deduction of discounts and other reductions applicable to such charges.

4. Related Party Transactiona

During the year the company and its subsidiaries had normal business transactions with Grace, Kennedy & Company Limited, a major shareholder, and its subsidiaries.

Related party transactions were as follows:

	1998	1997
	\$'000	\$'000
(a) Income earned	111,309	98,041
(b) Fees and other expenditure	<u>79,226</u>	<u>46,614</u>

5. Trading Profit

Trading profit for the year is arrived at after charging/(crediting) the following:

	1998	1997
	\$'000	\$'000
Depreciation	40,666	48,656
Auditors' remuneration		
Current year	1,658	1,796
Prior year	(31)	(16)
Directors' emoluments		
Fees	1,232	798
Management remuneration	5,365	4,991
Interest expense	1,177	2,540
Provision for doubtful debts	1,610	1,253
Legal and consultancy fees	<u>7,839</u>	<u>18,141</u>

6. Exceptional Item

This represented 75% off-dock storage fees due to the Port Authority of Jamaica in respect of the storage of mobile units during the period 1993-1996 (Note 23(c)).

7. Taxation

(a) Taxation is based on the group profit for the year adjusted for taxation purposes and comprises:

	1998	1997
	\$'000	\$'000
Income tax at 33 1/3%	77,767	46,891
Prior year under/(over) provision	3,575	(2,732)
Tax credit arising on bonus shares issued	(10,797)	(11,005)
Associated company	387	226
	<u>70,932</u>	<u>33,380</u>

(b) Subject to agreement with the Commissioner of Income Tax, losses of certain subsidiaries available for offset against future taxable profits amount to approximately \$2,629,000 (1997 - \$9,972,000) and may be carried forward indefinitely.

(c) Withholding tax represents amounts deducted and remitted to the Commissioner of Inland Revenue in respect of dividends paid to the company by group companies.

8. Extraordinary Items

	1998	1997
	\$'000	\$'000
Net loss on assets written off or sold	2,313	-
Loss on disposal of subsidiary (Note 2(b)(i))	4,726	-
	<u>7,039</u>	<u>-</u>

During the year fixed assets representing a significant part of the income generating activities for certain subsidiaries were either sold, demolished or written off due to a change in nature of the cargo flows being handled within the group.

9. Net Profit Attributable to Stockholders

	1998	1997
	\$'000	\$'000
Dealt with in the financial statements of:		
Holding company	120,551	75,591
Subsidiaries	35,574	17,518
Associated company	1,008	684
	<u>157,133</u>	<u>93,793</u>

10. Dividends

	1998 \$'000	1997 \$'000
Ordinary - first interim, paid out of franked income, net 1 cent (1997 - 4 cents)	6,253	18,758
- second interim, paid out unfranked income, gross 2 cents (1997 - nil)	<u>10,942</u> <u>17,195</u>	<u>-</u> <u>18,758</u>

At 31 December 1998, the company has franked income of \$nil (1997 - \$97,000) available for distribution to stockholders without deduction of tax.

11. Retained Earnings

	1998 \$'000	1997 \$'000
Reflected in the financial statements of:		
Holding company	251,331	179,239
Subsidiaries	25,949	4,138
Associated company	<u>3,701</u>	<u>2,693</u>
	<u>280,981</u>	<u>186,070</u>

12. Earnings Per Stock Unit

The calculation of earnings per ordinary stock unit is based on the group net profit before and after extraordinary items and the stock units in issue at the end of the year. The earnings per stock unit for the prior year have been restated to give effect to the bonus issue of shares during the year (Note 20).

13. Wharfage Levy

The Port Authority of Jamaica has placed a levy of 6.5% on the revenue of the company in respect of wharfage collected on general cargo. The total accrual for the year amounts to \$10,068,000 (1997 - \$4,035,000).

14. Fixed Assets

	THE GROUP						Total
	Freehold Land and Roadways	Leasehold Properties	Freehold Buildings, Security Walls, Piers & Dredging	Machinery, Equipment & Motor Vehicles	Furniture & Fixtures	Work-in- Progress	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cost or Valuation -							
At 1 January 1998	1,209,179	27,764	937,960	197,652	70,141	-	2,442,696
Additions	196	49	834	22,777	16,827	9,952	50,635
Disposals/write-offs	-	(3,731)	(7,564)	(8,525)	(80)	-	(19,900)
Assets in subsidiary disposed of	-	-	(5,638)	(415)	(1)	-	(6,054)
Revaluation adjustment	-	-	(215,021)	(24,606)	-	-	(239,627)
At 31 December 1998	1,209,375	24,082	710,571	186,883	86,887	9,952	2,227,750
Accumulated Depreciation -							
At 1 January 1998	6,672	8,063	255,264	124,060	17,865	-	411,924
Charge for the year:							
Historical	2,504	2,240	1,839	7,225	8,333	-	22,141
Revalued	-	-	10,693	7,576	256	-	18,525
Relieved on disposals/ write-offs	-	-	(2,499)	(6,350)	(46)	-	(8,895)
Relieved on disposal of subsidiary	-	-	(428)	(415)	(1)	-	(844)
Revaluation adjustment	-	-	(94,859)	(22,308)	-	-	(117,167)
Reclassification	-	-	-	(2)	2	-	-
At 31 December 1998	9,176	10,303	170,010	109,786	26,409	-	325,684

Net Book Value -

At 31 December 1998	1,200,199	13,779	540,561	77,097	60,478	9,952	1,902,066
At 31 December 1997	1,202,507	19,701	682,696	73,592	52,276	-	2,030,772

THE COMPANY

	Freehold Land and Roadways \$'000	Leasehold Properties \$'000	Freehold Buildings, Security Walls, Piers & Dredging \$'000	Machinery, Equipment & Motor Vehicles \$'000	Furniture & Fixtures \$'000	Total \$'000
At 1 January 1998	751,294	24,024	523,207	20,947	66,747	1,386,219
Additions	196	-	184	17,459	16,510	34,349
Disposals	-	-	-	(682)	(20)	(702)
At 31 December 1998	951,490	24,024	523,391	37,724	83,237	1,419,866

Accumulated Depreciation -

At 1 January 1998	4,336	8,054	182,334	12,475	16,228	223,427
Charge for the year						
Historical	2,504	2,235	1,199	3,472	8,012	17,422
Revalued	-	-	6,693	658	256	7,607
Relieved on disposals	-	-	-	(652)	(9)	(661)
At 31 December 1998	6,840	10,289	190,226	15,953	24,487	247,795

Net Book Value -

At 31 December 1998	744,650	13,735	333,165	21,771	58,750	1,172,071
At 31 December 1997	746,958	15,970	340,873	8,472	50,519	1,162,792

- (a) The freehold land and buildings of the group were revalued as at May 1993 on the basis of market value and depreciated replacement cost, respectively, by Stoppi, Cairney & Bloomfield, whilst machinery and equipment were revalued as at the same date on the basis of depreciated replacement cost by Delano Reid and Associates.

During the year the carrying cost of the buildings and all classes of machinery and equipment, previously valued in certain subsidiaries, were professionally revalued to reflect the remaining useful lives and fair value of these assets. Consequently, the cost of the assets were adjusted downwards and the impairment in value recognised in the capital reserve (Note 22).

- (b) Machinery, equipment and motor vehicles for the group include an amount of \$8,798,000 representing assets acquired under finance leases by subsidiaries (Note 26).

15. Investments

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Investments comprise:				
(a) Subsidiaries	-	-	139,035	124,463
Associated company	<u>4,488</u>	<u>3,063</u>	<u>787</u>	<u>370</u>
	<u>4,488</u>	<u>3,063</u>	<u>139,822</u>	<u>124,833</u>
(b) Associated company				
At cost or written down value	10	10	10	10
Bonus shares received				
Group's share of reserve	777	360	777	360
	<u>3,701</u>	<u>2,693</u>	<u>-</u>	<u>-</u>
	<u>4,488</u>	<u>3,063</u>	<u>787</u>	<u>370</u>

16. National Housing Trust

This represents contributions recoverable in the years 2001 to 2004.

17. Long Term Receivables

The Port Authority of Jamaica requires the company to allocate 16% of wharfage collected to a special reserve. The reserve, which was created in 1976, can only be utilised for retroactive labour costs and special expenditure in accordance with directives from Port Authority of Jamaica and must be represented by cash, deposits or easily realisable securities. The interest arising on the investments representing the reserve may be used by the company.

The long term receivables represent the amount spent in excess of the balance of the special reserve and is recoverable from future collection of wharfage allocated to the reserve. A total of \$28,699,000 (1997 - \$12,853,000) was recovered during the year.

During the year the Port Authority of Jamaica approved the recovery of \$10,000,000 from the special reserve in respect of expenditure relating to Management fees paid. The amount shown in Note 4(b) does not include this recovery.

During 1997, the Port Authority of Jamaica approved the recovery of \$78,164,000 from the special reserve in respect of expenditure relating to:

- a) Off-dock mobile storage facilities:
 - (i) operating expenses
 - (ii) leasehold improvements (Notes 6 and 23 (c))
 - b) Pile repairs
- Amounts relating to a) (i) and b) above were applied against the relevant expense categories in the profit and loss account.

18. Short Term Deposits

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Government of Jamaica Repurchase Agreements -				
Local Registered Stock at 22.35% (1997 - 29%)	<u>61,782</u>	<u>49,409</u>	<u>41,188</u>	<u>32,939</u>

Included in short term deposits is an amount of \$32,128,000 representing the Assets Replacement/Rehabilitation and Depreciation Funds. The balance includes net interest of \$1,798,000 earned for the period of the funds (Note 24).

19. Bank Overdraft

The group's bank overdraft facilities are secured by a mortgage over the company's properties at Berths 1 through 9 and debentures over other fixed assets within the group. The bank also has the option to upstamp the debentures and mortgage whenever deemed necessary.

20. Share Capital

	1998 \$'000	1997 \$'000
Authorised		
700,000,000 (1997 - 500,000,000) Ordinary share units of 20c each	<u>140,000</u>	<u>100,000</u>
Issued and fully paid -		
625,276,701 (1997 - 468,957,782) Ordinary stock units of 20c each	<u>125,055</u>	<u>93,792</u>

During the year the authorised share capital was increased by the creation of 200,000,000 ordinary shares of \$0.20 each to rank pari passu with the existing ordinary shares of the company in all respects. Of this amount 156,318,919 ordinary shares were then issued as fully paid up bonus shares by the capitalization of a portion of the company's earnings for the year. The new ordinary shares were converted and allotted as ordinary stock units transferable in units of \$0.20 each.

21. Share Premium

	The Group & The Company	
	1998 \$'000	1997 \$'000
Balance at 1 January and 31 December	<u>74,401</u>	<u>74,401</u>

22. Capital Reserve

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Balance at 1 January	1,910,525	1,897,506	1,073,696	1,060,676
Movements during the year -				
Transfer (to)/from profit and loss account:				
Bonus issue of shares	(3,954)	-	-	-

Loss on disposal of subsidiary	(2,356)	-	-	-
Capitalisation of profits in subsidiary	<u>16,740</u>	<u>12,659</u>	<u>-</u>	<u>-</u>
	1,920,955	1,910,165	1,073,696	1,060,676
Bonus shares received	417	360	15,773	13,020
Revaluation adjustment	(122,460)	-	-	-
Reserve on consolidation	(90)	-	-	-
Balance at 31 December	<u>1,798,822</u>	<u>1,910,525</u>	<u>1,089,469</u>	<u>1,073,696</u>
These comprise:				
Realised gain on sale of assets	30,188	538	5	5
Capital distributions received	3,612	3,612	3,612	3,612
Unrealised surplus on the revaluation of fixed assets	1,697,178	1,855,598	1,022,810	1,022,810
Capitalisation of profits	63,648	46,908	-	-
Bonus shares received	777	360	63,042	47,269
Arising on consolidation	<u>3,419</u>	<u>3,509</u>	<u>-</u>	<u>-</u>
	<u>1,798,822</u>	<u>1,910,525</u>	<u>1,089,469</u>	<u>1,073,696</u>

23. Long Term Loans

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
(a) Port Authority of Jamaica	2,933	2,933	1,480	1,480
(b) Trafalgar Development Bank	625	1,250	-	-
(c) Port Authority of Jamaica	<u>34,740</u>	<u>52,110</u>	<u>34,740</u>	<u>52,110</u>
	38,298	56,293	36,220	53,590
Less: Current portion	<u>17,995</u>	<u>17,995</u>	<u>17,370</u>	<u>17,370</u>
	<u>20,303</u>	<u>38,298</u>	<u>18,850</u>	<u>36,220</u>

- (a) This loan, which is interest free, was obtained to build the security wall and is repayable only if the wharf is sold.
- (b) This loan bears interest at 29%; repayment, consisting of 48 equal monthly instalments, commenced in January 1996.
- (c) This represents the balance of the off-dock storage fees payable to the Port Authority of Jamaica (Notes 6 and 17). The balance, which is interest free, is repayable over a period of three years ending 2000.

24. Assets Replacement/Rehabilitation and Depreciation Funds

During the year the Port Authority of Jamaica authorised the creation of a special fund to be provided through the tariff for the replacement and/or rehabilitation of the wharf facilities. A total of \$66,701,000, to be recovered from tariffs over the next five years, was approved to meet the shortfall in the accumulated needs of the Assets Replacement and Rehabilitation Fund. A further sum of \$12,579,000 was also approved to meet the annual needs of the Fund.

The requirements of the Assets Replacement/Rehabilitation Fund became effective in April 1998 with the introduction of the new tariff rate structure approved by the Port Authority of Jamaica.

In April 1998, the Port Authority of Jamaica stipulated that depreciation charged on the historical costs of fixed assets be placed in a Depreciation Fund.

The Authority requires that the funds be represented by cash, deposits or easily realisable securities and that interest arising on such investments be credited directly to the Funds (Note 18).

The Depreciation Fund which amounts to \$13,268,000 at 31 December 1998, comprises net interest of \$865,000 (included in these funds) and \$12,403,000 of historical depreciation which is reflected in accumulated depreciation under fixed assets.

25. Deferred Income

During 1997, The Port Authority of Jamaica approved the reimbursement of \$17,478,000 which represents a proportion of the expenditure incurred by Kingston Wharves Limited for leasehold improvements of the mobile units storage facilities. This amount was deferred and is being amortised over a period of 8 years.

26. Finance Lease Obligations

At 31 December 1998 the group had outstanding obligations under finance leases as follows:

		1998
		\$'000
In the year ending 31 December	1999	963
	2000	963
	2001	321
		<u>2,247</u>
Total minimum lease payments		654
Less: Future finance charges		<u>1,593</u>
Present value of minimum lease payments		549
Less: Current portion		<u>1,044</u>

27. Pension Schemes

- (a) The company and its subsidiary (Security Administrators Limited) participate in a joint contributory pension scheme which is open to all permanent employees and administered by trustees. Under the scheme retirement benefits are based on average salary during the five years preceding retirement; this applies to full time employees.

The results of the latest actuarial valuation as at 1 January 1995 disclosed that the scheme was adequately funded at that date.

Included in these financial statements are contributions of \$12,091,000 (1997 \$9,763,000).

- (b) The subsidiaries (Harbour Cold Stores Limited and Kingston Terminal Operators Limited) participate in separate joint contributory pension plans.
 - (i) Harbour Cold Stores Limited is one of a number of participating employers in a joint contributory pension scheme administered by trustees. The scheme which commenced on 1 January 1975 is funded by employee contributions at 5% and employer's contribution of 10% of salary as recommended by independent actuaries. Annual pension at normal retirement age is based on 2% of the final 3 year average salary per year of pensionable service plus any declared bonus pension.

An actuarial valuation of the scheme as at 31 December 1998 revealed that it was adequately funded.

This subsidiary made contributions during the year of \$2,403,000 (1997 - \$2,177,000).

- (ii) Kingston Terminal Operators Limited has a contributory pension plan which is administered by First Life Insurance Company Limited. Retirement benefits are based on average salary during the five years preceding retirement. The latest actuarial valuation, which was carried out in December 1996 indicated a deficiency of \$4,400,000 for past service liabilities. The actuaries have recommended that the company continue its contribution at the rate of 10% of pensionable salaries in order to eliminate the deficit over a period of one year. The triennial actuarial valuation of the plan is scheduled to commence in 1999.

This subsidiary made contributions during the year of \$23,960,000 (1997 \$20,699,000).

28. Commitments and Contingencies

- (a) Arising from oil spillage, claims amounting to approximately S98,000,000 were filed against the company during the financial year ended 31 December 1993. The company has disclaimed liability on the basis that it has an indemnity from a third party. Consequently, no provision has been made in these financial statements.
 - (b) Loan approved but not disbursed at 31 December 1998 by the National Development Bank amounted to \$ 11,000,000. This relates to capital expenditure being undertaken by a subsidiary.
 - (c) Commitments for capital expenditure approved but not yet disbursed at 31 December 1998 amount to \$330,670,000.
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